Testimony

By

Ted Higginbottom

President of
Western Peanut Growers

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Mr. Chairman, Members of the Committee, it is an honor for me to appear before you to discuss the status of the peanut industry. My name is Ted Higginbottom. I am President of the Western Peanut Grower Association of Seminole, Texas. The Western Peanut Grower Association has more than 1000 members in Texas who produce 75% of the peanuts grown in Texas. Peanut production, concentrated in the southeastern and southwestern regions of the United States, generates an annual crop value of about $1 billion. This afternoon I would like to talk about two concerns the producers of my association have regarding the crop insurance program as it relates to peanuts:

- Crop insurance coverage is not equal for peanuts
- Reduced coverage for second crop provides uncertainty

Farm Bill Changed Program - Crop Insurance Has Not Changed

The peanut industry appreciates the Committee's diligent work on the 2002 Farm Bill to provide legislation to convert peanuts from a production quota system to a regular program commodity. This was an important change for our commodity, to allow peanuts to be more competitive in the world market while providing financial assistance in times of low markets.

Under the 2002 Farm Bill, peanut producers are now entitled to the same safety net provisions enjoyed by other commodity producers such as marketing assistance loans, fixed decoupled payments and counter-cyclical payments. However, the loan provisions only assist farmers who have a crop. Crop insurance is the safety net that is important to our lenders. Without a sound crop insurance program, many of our growers would find it difficult to obtain financing for their yearly inputs.

The 2003 peanut program significantly changed under the Farm Bill, but changes to the crop insurance program have lagged behind. Producers of other program commodities have the ability to insure actual production history (APH) on acreage by section, based on irrigated and non-irrigated practices. Peanuts are still under a crop insurance policy that was written in 1999, which is more restrictive than the current crop insurance Basic Provisions.

Under the peanut policy, the producer can only have a separate unit if the acreage is given a separate FSA farm serial number. The peanut quota system established the producer's peanut acreage under a single FSA serial number. Therefore, without a change in the policy, producers are not permitted to utilize optional farm units – the entire peanut acres are covered under one policy, requiring a higher loss percentage in order to obtain any indemnity payment. This restriction also prevents the producer who has irrigated and non-irrigated land under the same FSA serial number from establishing actual production history for each section.

The Western Peanut Growers brought this issue to RMA's attention in March of this year during a meeting with RMA Administrator Ross Davidson and representatives from the RMA Oklahoma Regional Office. **During this meeting RMA promised the optional**

unit structure would be changed for the 2004 crop year. The contract change date for peanuts was November 30. **RMA did not release a new policy for the 2004 crop year with this modification – in fact we are still under the policy written in 1999.**

The Western Peanut Growers urges the Committee to prompt RMA to expedite the necessary policy changes to allow peanut producers to establish optional units, which would provide better insurance coverage, as the APH would be recorded for the individual acreage sections. This small change in the policy would make the policy more equitable in comparison to other program crops and it would make a vast difference to the peanut producers who want a meaningful risk management tool.

ARPA Provision Creates Producers Certainty

The second issue I want to address today was a change that was incorporated in the Agricultural Risk Protection Act of 2000 (ARPA), which RMA will be implementing for the 2004 crop year, the double insurance provision. This stipulation on coverage will have many unintended consequences; beginning with producers and lenders not having a clear understanding of the amount of insurance will be available to the producer during the crop year. This will cause cash flow problems for producers as they try to obtain operating loans for the entire crop year, when only 135 percent of two crops can be insured. This provision will force producers to decide which crop he will fully insure.

Under this ARPA restriction, if the producer has a loss on the first crop, he can receive 100 percent of the insured loss for the crop and not insure the second crop. The other choice for the producer is to calculate the loss for the first crop, receive 35 percent of the eligible indemnity, plant and insure the second crop. If there is a loss to the second crop he can receive a full indemnity for the second crop, but he has to forgo any additional indemnity for the first crop. If the producer is fortunate and has no loss to second crop, he can obtain the balance of the indemnity payment for the first crop, after he has harvested the second crop. At the end of the year, the premiums for the two crops will be adjusted according to percentage indemnity received for the crop.

This restriction will not harm producers who only farm one crop a year, but most producers here in Texas try to produce at least two crops in one crop year. When crops are hit with a natural disaster such as hail or drought, and if conditions permit, we want to plant another crop because we want to earn our living in the market place. It is very possible for a Texas cotton farmer to have his crop hailed out just after the final planting date for cotton and there would be able time left in the year for Spanish peanuts to mature if planted after the cotton. Furthermore, a producer's wheat crop could be destroyed by hail and a full growing season would be available for peanuts.

This ARPA provision will severely jeopardize our producers' financial security, as they will not know with any level of certainly what their income will be until the last peanut is marketed. Nor will he know what his crop insurance premium bill for the year will be until the second crop is completed, because the premium will be adjusted depending on the percentage election for first crop loss.

In addition, this provision will cause a great deal of problems for the insurance companies and agents, as they will have difficulty tracking and booking the appropriate premium as well as the additional costs to adjust the losses once the producer makes the election regarding the indemnity for the first or second crop.

We understand the reason behind this provision in the ARPA legislation was to cut down on abusive practices when three or four crops were insured. However, this provision will harm all producers who double crop. We urge the Committee to modify this provision with legislation that would provide 100 percent coverage for two crops planted in one calendar year. This would be an equitable solution, as it would provide the producer with some financial certainly regarding his crop insurance coverage while limiting the coverage to two crops.

The Western Peanut Growers would greatly appreciate the Committee's attention to these very important issues, which gravely impact our financial stability. We urge the Committee to take action to change these provisions to make crop insurance a more viable risk management tool for peanut producers.

Thank you again for your invitation, I hope I have provided you with an informative snapshot of the challenges the industry faces and I will be happy to respond to your questions.